

Revenue Estimating Conference Minutes December 8, 2003

Members present: Dennis Prouty, David Underwood, Holmes Foster.

Dennis Prouty called the Revenue Estimating Conference to order at 11:00 a.m. with all members present.

Dennis asked for a motion to approve the minutes of the October 10, 2003 REC Meeting. Motion made by Holmes Foster, seconded by David Underwood to approve minutes as printed. Motion carried.

Review Fiscal Year 2004 General Fund Estimates, Lottery and Other Transfers, Accruals, Refunds, and Gambling Revenues Transferred to Other Funds

Dennis explained the few changes made to the FY04 estimates stating the Legislative Fiscal Bureau added \$38.2M to personal income tax and decreased corporate income tax by \$42M. This is a \$900,000 change, before transfers, since the October estimate.

Holmes agreed the estimates were very close. He made motion, seconded by David to accept LFB's FY04 estimates of \$5,195M for Total Receipts and Transfers.

David asked for a clarification on the changes in income tax and corporate tax.

Dennis explained that they felt there was going to be a weakening position in the corporate income tax. Over the past several sessions, various tax changes have been provided which continues to be carry forward, carry back situations. Looking at corporate income tax, the total receipts seemed to be decreasing. In October, the REC had a minus 3.6 % change in the growth. LFB's turned out to be minus 24%. With the changes in the economy, LFB thought the total receipts would net out at a much lower amount.

Holmes added that FY04 corporate income tax receipts are down significantly. He believes part is due to the economy and part to the tax structure. As far as the country as a whole is concerned, corporate profits are up and there is no way of knowing to what extent this is going to affect Iowa corporate revenues.

David agreed it is hard to understand why they are down and there's nothing to indicate that it's going to turn around based upon the estimates.

Following discussion, a vote was taken on the motion to accept LFB's FY04 estimate of \$5,195M for Total Receipts and Transfers receiving two affirmed and one opposed votes. Motion carried.

FY04 Refunds

FY04 refunds were discussed. David made motion, seconded by Holmes to accept LFB's estimate of \$736M for refunds. Motion carried.

FY04 Accruals

Both DOM and LFB showed an increase of \$23.6 for FY04 Accruals. Motion made by David, seconded by Holmes to accept this estimate. Motion carried.

FY04 Gambling Revenues

Both DOM and LFB estimated \$124.9 for FY04 Gambling Revenues. David made motion, seconded by Foster to accept this estimate. Motion carried.

Estimate Fiscal Year 2005 General Fund Estimates, Lottery and Other Transfers, Accruals, Refunds, and Gambling Revenues Transferred to Other Funds.

Because of the difference in Sales Tax and Corporate Income Tax, Dennis suggested working with LFB's FY05 estimates and making any needed adjustments since motions for FY04 used LFB's estimates.

Looking at FY05 estimates, Dennis shared that LFB was somewhat more optimistic than DOM with sales tax. Corporate Income Tax continues to be the other problem. The basic philosophy for FY05 is the same as it was for FY04.

Holmes stated that DOM's estimate for sales tax did not account for any increase due to internet sales.

Holmes made motion to accept LFB's FY05 estimates reducing sales tax to \$1,508.9M. Motion seconded by David.

David expressed his concern about the impact of the law changes and the growth factor.

Dennis explained that one of the law changes dealt with the sales tax phase-out on utility bills which will no longer be available to the population of the state. Therefore, revenue for FY05 was increased by \$63.4M. Because the sales tax rate goes from 3% back to 5%, current law dictates the \$63M be added back into the estimate for FY05.

David noted that from the growth standpoint, a lot of it will depend on winter temperatures and fuel prices.

Dennis called for a vote on the motion accepting LFB's FY05 estimates, reducing sales tax to \$1,508.9M making Total Receipts and Transfers \$5,257.1M. Motion carried.

FY05 Accruals

DOM and LFB estimates were the same. Motion made by David, seconded by Holmes to accept the \$5.5M estimate for Accruals. Motion carried.

FY05 Refunds

Holmes made motion, seconded by David to accept DOM's estimate of \$712.2M for refunds. Motion carried.

FY05 Gambling Revenue

DOM and LFB estimates were the same. Motion made by David, seconded by Holmes to accept \$126.8M estimate for Gambling Revenue. Motion carried.

Net General Fund Receipts

With the motions made on FY05 estimates, the Net General Fund Receipts changed to \$4,550.3M showing a 1.5% general growth.

Other Business

Dennis shared that Holmes Foster was retiring from the Revenue Estimating Conference and thanked Holmes for all the work he had done and all the insight he brought to the Committee.

With no further business, David moved to adjourn.

Next REC Meeting

March 19, 2004;

11:00 a.m.;

State Capitol, Room 116